COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, SEPTEMBER 25, 2001

APPLICATION OF

UNITED CITIES GAS COMPANY
(a Division of Atmos Energy Corporation)

CASE NO. PUE010305

For approval of an amendment to purchased gas adjustment rider

FINAL ORDER

On May 22, 2001, United Cities Gas Company (a Division of Atoms Energy Corporation) ("United Cities" or the "Company") filed an application with the State Corporation Commission ("Commission") requesting approval of an amendment to its Purchased Gas Adjustment Rider ("PGA"). The Company has begun to engage in financial hedging activities as a part of its gas purchase strategy. United Cities requests that its PGA be amended to include the costs associated with gas price hedging contracts in the definition of the cost of purchased gas.

On June 6, 2001, the Commission issued an Order for Notice and Hearing which, among other things, required Staff to investigate the reasonableness of the Company's application and to present its findings and recommendations in a report to be filed with the Clerk of the Commission on or before July 27, 2001. Accordingly, Staff filed its report on July 27, 2001. In its report, Staff states that hedging can be an appropriate component of a prudently managed gas supply portfolio. Staff further believes that it would be appropriate to recover prudently incurred costs through the PGA so that there is a match between the recovery of the hedging costs and the recovery of the costs of the associated gas supply. Staff notes that the costs should be recovered without reference to other hypothetical or imputed gas supply costs.

The Staff Report also contains recommendations for the Company to employ in its hedging activities. Such recommendations include that the PGA mechanism be amended to allow for the recovery of prudently incurred costs associated with hedging, and that the Company be authorized to enter into futures contracts, forward contracts, and call options, including caps and collars, in conjunction with 50% of its expected gas purchases under normal conditions, net of storage, through the 2003-2004 heating season. Staff further recommends that United Cities should use caution since the reasonableness of the costs are subject to review, and that the Company's Board of Directors should adopt a risk management policy to define the Company's objectives in its risk management activities. Finally, Staff recommends that the Company file a report on or before June 30, 2002, 2003, and 2004 detailing each gas cost-hedging transaction into which United Cities entered.

On August 2, 2001, United Cities filed a motion requesting that it be allowed to respond to the Staff Report by August 24, 2001. We granted the Company's motion on August 3, 2001. United Cities filed comments on the Staff Report on August 23, 2001. In its comments, United Cities took issue with the Staff's recommendation that the Board of Directors adopt a risk management policy. The Company argues that its gas procurement strategies require flexibility for quick reaction to market changes, and that since its activities are under constant oversight and approval by senior management, a formal policy is unnecessary.

To address this concern, Staff and United Cities discussed alternatives to a policy adopted by the Board of Directors. On September 19, 2001, the Company filed with the Commission Risk Management Control Guidelines approved by the Company's senior management. Staff agrees with the adoption of these guidelines which will assist the Company in its risk management practices.

NOW THE COMMISSION, having considered the application, the Staff Report, and the Risk Management Control Guidelines, is of the opinion and finds that the Company's proposed amendment to the PGA should be implemented. United Cities should conduct its hedging activities in accordance with the recommendations made by Staff and the Risk Management Control Guidelines filed herein.

Accordingly, IT IS ORDERED THAT:

(1) United Cities may enter into futures contracts, forward contracts, and call options, including caps and collars, in conjunction with 50% of its expected gas purchases under normal conditions, net of storage, through the 2003-2004 heating season in accordance with the Staff recommendations and the Risk Management Control Guidelines described herein.

(2) The Company is hereby authorized to amend the definition of the cost of purchased gas in its PGA to allow for the recovery of prudently incurred costs associated with gas price hedging contracts as described in Ordering Paragraph (1) above.

(3) The Company shall file a detailed report with the Commission’s Divisions of Economics and Finance, Energy Regulation, and Public Utility Accounting to account for each gas cost-hedging transaction on a yearly basis on or before June 30, 2002, 2003, and 2004.

(4) The Company shall forthwith revise the appropriate portions of its tariff on file with the Commission.

(5) This case shall remain open for receipt of the reports to be filed by United Cities as described in Ordering Paragraph (3) above.